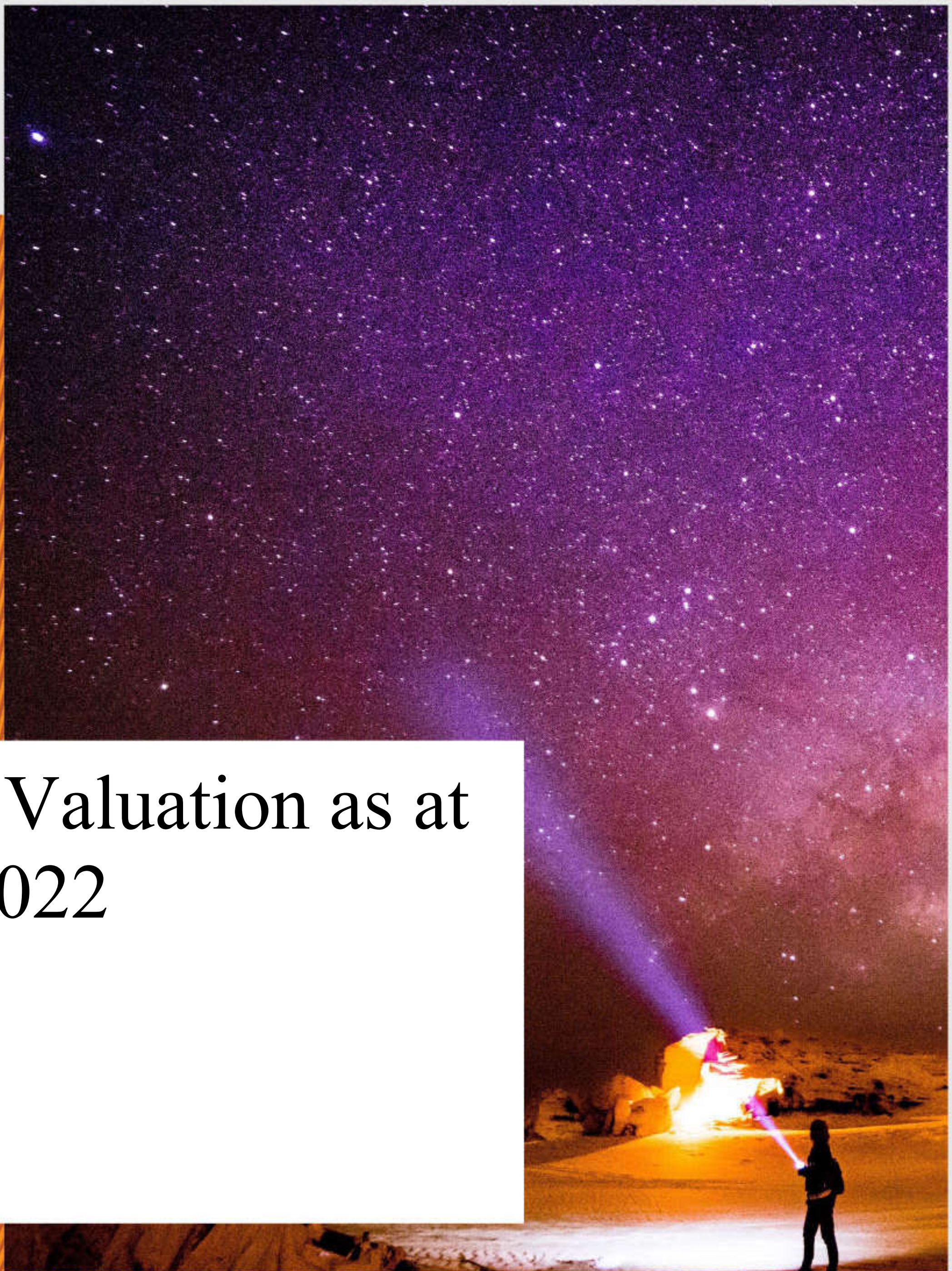
# Actuarial Valuation as at 30 June 2022

BOC Super



15 December 2022

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# Section 1: Purpose and Summary

The BOC Super Sub-Division of Equipsuper ("the Fund") provides benefits which are of the *"defined benefit"* type where benefits are defined by Salary and period of membership. There are also a significant number of Accumulation Members. Additional accumulation benefits are also provided for most Defined Benefit Members.

With such a plan, a regular actuarial review is necessary in respect of the defined benefits provided by the Fund to:

- examine the sufficiency of the assets in relation to members' accrued defined benefit entitlements
- determine the recommended Company contribution rate required to ensure that the Fund maintains a satisfactory financial position
- examine the suitability of the Fund's insurance and investment arrangements
- satisfy Provision A6.1 of the Equipsuper Trust Deed, and
- meet legislative and prudential standard requirements, in particular paragraph 23 of Prudential Standard 160 Defined Benefit Matters ("SPS160"). Under SPS 160 an actuarial investigation is required at least every three years. Annual valuations for funds providing lifetime pensions are required unless the Australian Prudential Regulation Authority ("APRA") approves a longer period between actuarial valuations.

This report has been prepared for the Trustee, Togethr Trustees Pty Ltd, in my capacity as RSE Actuary to the Fund. The Effective Date of this actuarial valuation is 30 June 2022.

This report has been prepared in accordance with Practice Guideline 1, Professional Standards 400, 402 and 404, issued by the Institute of Actuaries of Australia.

The previous valuation of the Fund, which I conducted, was carried out at 1 November 2021 with the results set out in a report dated 29 April 2022.

## Reliance statement and data

This report is provided subject to the terms set out herein and in our engagement letter dated 1 November 2021 and the accompanying Terms and Conditions of Engagement. This report is provided solely for the Trustee's use and for the specific purposes indicated above. It may not be suitable for use in any other context or for any other purpose.

Except where we expressly agree in writing, this report should not be disclosed or provided to any third party, other than as provided below. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted by us for any consequences arising from any third party relying on this report or any advice relating to its contents.

The Trustee may make a copy of this report available to its auditors, the Company and to any person to whom the Trustee may be required to provide a copy under relevant legislation, but we make no representation as to the suitability of this report for any purpose other than that for which it was originally provided and accept no responsibility or liability to the Trustee's auditors or the Company in this regard. The Trustee should draw the provisions of this paragraph to the attention of its auditors and the Company when passing this report to them.

In preparing this valuation, we have relied upon information and data provided to us orally and in writing by the Trustee and other persons or organisations designated by the Trustee. We have relied on all the data and information provided, including Fund provisions, membership data and asset information, as being complete and accurate. We have not independently verified the accuracy or completeness of the data or information provided, but we have performed limited checks for consistency. The data and information we have relied upon is shown in Section 2.

In our opinion, all calculations are in accordance with requirements of applicable legislative requirements, and the procedures followed and the results presented conform with applicable actuarial standards of practice.

## Company Contributions

In the absence of any special circumstances, we recommend that the normal Company contributions for the 3 year period commencing 30 June 2022 are as follows:

a. for each active employee Member, contributions at the rate (expressed as a % of Fund Salary) agreed with the Member subject to the requirements of the Participation Agreement and the Superannuation Guarantee legislation; plus

b. the cost of insured standard lump sum death and TPD and Disability Income Benefits (DIB), with the actual monthly funding requirement (in dollars) to be determined from time to time by the Trustee; plus

c. additional contributions (including direct payment by the Company where appropriate) to meet any administration and non-investment costs borne by the Fund, net of any fees applied to Member’s accounts.

As agreed with the Trustee and Company, the Company contributions in respect of b may be suspended until 30 June 2023 and recommence on 1 July 2023, while the Company contributions in respect of c may be suspended until 1 January 2026.

The funding position, and in particular the coverage of vested benefits by Fund assets, should continue to be monitored quarterly each year.

# Funding Status Measures

## *Vested Benefits*

Vested benefits are the benefits payable if all Members voluntarily resigned from service. The ratio of the Fund's assets to vested benefits is referred to as the Vested Benefits Index (VBI). The value of the VBI is as follows:

| | 1 November 2021 | 30 June 2022 |
|---|---|---|
| Defined Benefits only (i.e. excluding Accumulation Only benefits) | 111.2% | 110.2% |
| Total Fund | 100.8% | 100.6% |

For the purposes of this Report, *"Accumulation Only"* means total account balances for accumulation only employee members, retained members and spouse members as well as any additional accumulation benefits for Defined Benefit Members. Consistent with this, in this Report "*Defined Benefits"* generally refers to the balance of the Fund's liabilities, except where specifically stated.

Assuming:

a. the benefits described in the Participation Agreement remain unchanged

b. Company contributions are paid at the recommended rate

c. the future experience of the Fund is in accordance with the assumptions made in this actuarial valuation

then the assets of the Fund should remain in excess of the vested benefits up to 30 June 2025. On this basis, the financial position of the Fund is expected to remain satisfactory.

## *Present Value of Accrued Benefits*

The present value of accrued defined benefits is the actuarial value (using the assumptions and methodology detailed in this report) of the expected future defined benefits payable from the Fund to the current Defined Benefit Members and their dependents in respect of Fund membership completed up to the date of the actuarial investigation. This is a simple measure of the Fund's current financial strength on the basis that the Fund continues to operate.

The Fund's net assets are adequate to cover the present value of the accrued benefits of all members of the Fund at the valuation date. The ratio of the Fund's assets to the present value of accrued benefits is as follows:

| | 1 November 2021 | 30 June 2022 |
|---|---|---|
| Defined Benefits only (i.e. excluding Accumulation Only benefits) | 111.4% | 110.4% |
| Total Fund | 100.8% | 100.6% |

From time to time the value of the Fund's assets may be greater than, or less than, the present value of accrued benefits. These excesses, or shortfalls, arise when the actual experience of the Fund differs from the assumptions used to determine contribution rates.

### *Minimum Benefits*

The Fund is *"solvent"* if the net realisable value of the assets of the Fund exceeds the Minimum Requisite Benefits (MRB).

Pursuant to the Benefit Certificate, the MRB for employee members is equal to the sum of their accumulation account balances.

As at the valuation date, the net assets of the Fund exceeded the MRBs and the Fund was in a solvent financial position. The ratio of the Fund's net assets to the total MRB was 100.7%. At the previous valuation, this ratio was 100.9%.

### *Shortfall Limit*

As required under SPS 160 the Trustee has set the Shortfall Limit for the Fund at 100%, in line with the Equipsuper Contribution and Funding Policy. Given the current investment strategy, we consider this Shortfall Limit is appropriate for the Fund.

## Superannuation Guarantee

The Company's Superannuation Guarantee obligation is fully met for all Members by the minimum benefits provided under the Fund. The required Benefit Certificate is dated 14 February 2022.

A Funding and Solvency Certificate dated 28 February 2022 has been issued to the Trustee corresponding to the above mentioned Benefit Certificate. The purpose of this certificate is to specify the required Company contributions needed to fund the MRBs used to offset the Superannuation Guarantee charge. All necessary funding and solvency certificates have been issued to the Trustee during the period from 1 November 2021 to 30 June 2022, in respect of the Fund. A superannuation fund is *"solvent"* if the net value of its assets, less the value of the benefit entitlements of former members, exceeds the minimum Superannuation Guarantee benefits. At 30 June 2022, the Fund is solvent and based on the actuarial assumptions, we see no reason why it would be unlikely that an actuary will not be able to certify the solvency of the Fund in three years' time. The Funding and Solvency Certificate will be reviewed at the conclusion of this valuation.

## Investments

The Fund's Defined Benefit assets are invested in the Equip Defined Benefit Option, not including the assets supporting Defined Benefit Member's Member and Company Accounts ("DB Accounts") which are invested in the Equip Balanced Growth option.

In my opinion the overall investment strategy as described above is suitable for this Fund, having regard to the current financial position and the underlying liabilities of the Fund at 30 June 2022.

The Trustee regularly monitors the investment managers' performance and we recommend that this continues.

## Insurance

In comparison with the Fund's net assets the total amount of insurance protection against death and total and permanent disablement and Disability Income Benefits (DIB) is adequate as at 30 June 2022.

## Defined Benefit Pensions

The Fund pays defined benefit pensions. I believe there is a high probability that the Fund will be able to pay the pensions as required under the Fund's governing rules.

## Next Valuation

The next valuation will be held effective 30 June 2023 unless the Trustee obtains an exemption from APRA for annual valuations. Vested benefits coverage should continue to be monitored quarterly.

J. Downham

**Jackie Downham**
Fellow of the Institute of Actuaries of Australia

15 December 2022

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# Section 2: Background and Data

The BOC Gases Superannuation Fund ("Previous Fund") originally commenced on 1 July 1937 and operated in accordance with the Trust Deed as amended from time to time. The latest consolidated version of the Trust Deed for the Previous Fund was dated 6 May 2013.

The benefits and conditions of the Previous Fund were carried over to the Equipsuper Fund via the Participation Agreement dated 1 November 2021, under Successor Fund Transfer arrangements. On transfer to Equipsuper, the account based pension members and transition to retirement pension members were separated from the BOC sub-division and transferred to the Pension Category within Equipsuper.

The Company's contribution requirements are set out in Clause 8 of the Participation Agreement and in the Equipsuper Contribution and Funding Policy.

The Fund is a regulated complying superannuation fund under the SIS Act and for taxation purposes. Since 1 July 1990 the defined benefit section has been closed to new members and all new employee members are provided with accumulation style benefits.

A summary of the main benefits as set out in the Participation Agreement, is included as Appendix A to this report.

## Previous Recommendations

Company contributions paid to the Fund over the period from 1 November 2021 to 30 June 2022 have been in line with the recommendations set out in my report dated 29 April 2022 as follows:

a. for each active employee Member, contributions at the rate (expressed as a % of Fund Salary) agreed with the Member subject to the requirements of the Participation Agreement and the Superannuation Guarantee legislation; plus

b. the cost of insured standard lump sum death and TPD and Disability Income Benefits (DIB), with the actual monthly funding requirement (in dollars) to be determined from time to time by the Actuary in consultation with the Company; plus

c. additional contributions (including direct payment by the Company where appropriate) to meet any administration and non-investment costs borne by the Fund, net of any fees applied to Member's accounts.

The Company contributions in respect of b were suspended until 30 June 2023, while the Company contributions in respect of c were suspended until 1 January 2026

The Company also paid pre-tax member contributions for members who have elected to make voluntary contributions by salary sacrifice.

## Sources of Information

We have relied on the administrative records at 30 June 2022, provided by Mercer (the Fund administrator).

We have relied on the information contained in the Fund's unaudited financial information for the period from 1 November 2021 to 30 June 2022, as provided by Mercer (the Fund administrator).

Where possible the information provided has been checked for reasonableness and is considered suitable for the purposes of this investigation.

## Data

The membership details are summarised in Appendix B. In brief, there were 1,025 employee members as at 30 June 2022, of which 35 were Defined Benefit Members with total annual salaries of $3.469 million.

All permanent employee members (with a few exceptions) are entitled to additional benefits on disability which are currently financed by the Company.

The Fund has 4 lifetime pensioners who are currently receiving pensions totalling $149,000 per annum. Whilst the Fund no longer provides a lifetime pension option, the Fund remains open to potential further pension benefit claims from the widowed spouses of former retired members (referred to as "contingent spouse pensions").

The Fund also allows former employee members to retain their benefits in the Fund as a Retained Benefit member. As at 30 June 2022 there were 1,439 former employee members in the Retained Benefit section.

A comparison of the full membership between the last valuation date and this valuation date is enclosed as Appendix C to this report.

We have checked a sample of the membership data for internal consistency and are satisfied as to the accuracy of this sample.

The average attained age of Defined Benefit Members has marginally decreased from 59.3 years to 59.2 years from 1 November 2021 to 30 June 2022. The average completed membership of Defined Benefit Members has increased from 35.1 years to 35.3 years in this period.

The Defined Benefit Members were also present at the previous valuation. Their salaries for superannuation purposes over the intervening period have increased on average by 2.0% p.a.

# Section 3: Assets and Investment Strategy

## Accounts

We have been supplied with unaudited financial information covering the period from 1 November 2021 to 30 June 2022.

For practical reasons, we have not reconciled the statistical data on exits provided for the purposes of this valuation with the amounts appearing in the reporting for benefit payment purposes and have not checked all the larger benefit payments to ensure that these were being calculated in accordance with the provisions of the Participation Agreement. However, we have checked a number of the individual member vested benefit and death benefit amounts as at 30 June 2022, as provided by the administrator, for reasonableness.

The Fund's financial information shows that the Company has been contributing in accordance with the recommendations of the last valuation report.

## Market Value of Net Assets

For the purposes of determining contribution rate recommendations and assessing solvency, the value of the assets provided by Equip has been taken as the net market value of the assets, with an adjustment for known payables and receivables at 30 June 2022. The net market value of the Fund's assets at 30 June 2022 have been determined as follows:

| Market Value of Assets at 30 June 2022 | $ |
|---|---|
| Accumulation Accounts | 531,231,389 |
| Defined Benefit Member Additional Accounts | 2,218,924 |
| Defined Benefit Member Accounts (invested in Equip Balanced Growth Option) | 30,121,660 |
| Employer Benefit Account (invested in Equip Defined Benefit Option) | 9,788,878 |
| **Total Fund Assets at 30 June 2022** | **573,360,850** |
| Less Payables at 30 June 2022 [1] | (33,333) |
| Plus Receivables at 30 June 2022 [2] | 104,630 |
| **Net Assets available to pay benefits** | **573,432,147** |
| Made up of: | |
| Total Accumulation Accounts | 533,450,313 |
| Total Defined Benefit Assets | 39,981,834 |

[1] Allowance for Equip DB administration fee payable for the period 1 November 2021 to 30 June 2022.

[2] Allowance for a reversal of a transaction in relation to an incorrectly applied expense deduction form the BOC EBA.

## BOCG SFT Liability Reserve

In accordance with Schedule 1 of the Principles Agreement, the ORFR that was transferred from the Previous Fund to the BOC Super sub-division has been placed in the BOCG SFT Liability Reserve. Any amount remaining in that Reserve will be returned to the Fund over a 3 year period commencing in the fourth year of participation within Equip. To clarify, the transfer schedule is as follows, years 1-3 – Nil payments, Year 4 – 33.3% of the then balance, Year 5 – 50% of the then balance and Year 6 – the remaining balance.

As at 30 June 2022 the BOCG SFT Liability Reserve was $1,803,055. The BOCG SFT Liability Reserve is invested in the Defined Benefit option in Equipsuper. The return of the BOCG SFT Liability Reserve to the Fund will increase the Fund's surplus at that time (as it is not allowed for as a current or deferred asset of the Fund at 30 June 2022) with the first transfer to occur in the year commencing 1 November 2024.

## Accumulation benefits – Member Investment Choice

Accumulation Members can choose from a range of investment options to invest their accumulation accounts. The investment options are unitised and distribute investments returns to members through movements in unit prices.

Investment choice also applies to Defined Benefit Members in respect of any additional accounts (less any debit accounts).

Under investment choice, the returns credited to each option directly reflect the investment earnings of the option. No reserves are maintained to smooth returns credited to Members. I consider this crediting rate approach to be suitable for accumulation benefits.

## Nature of Defined Benefit Liabilities

The level of the Defined Benefit liabilities does not bear the same direct relationship with the assets as exists with accumulation liabilities.

Whereas the Defined Benefit liabilities reflect salary growth, the supporting assets depend on a range of factors including:

i. the level of Company contributions, and

ii. the level of investment returns.

In this case, it is the Company which bears the investment risk as the level of contributions depends on the level of investment returns achieved.

An investment strategy which is framed to take a long-term view will often adopt relatively high levels of equity investment in order:

i. to secure attractive long term investment returns, and

ii. to provide an opportunity for capital appreciation and dividend growth, which gives some protection against inflation (as benefits are linked to Salary growth which is also influenced by inflation).

The main constraint in this situation occurs if potential fluctuations in asset values mean the assets supporting the defined benefits could fall below the level of vested defined benefits, placing the Fund in an unsatisfactory financial position.

While the impact of a sudden sharp fall in asset values can be limited by maintaining a buffer of assets over and above the level of vested defined benefits, the level of the buffer may never be sufficiently high to safeguard against all investment outcomes. However, the buffer should be at a level where the risk of the asset values falling below the level of vested benefits under a particular investment strategy is acceptable to the Trustee and the Company.

In this regard, a lower buffer may be acceptable where the Company is willing and able to accept short-term variations in contributions as part of underwriting the defined benefits of the Fund. In this case, short-term variations in company contributions may result from:

i. reducing a buffer that has grown too large, or

ii. rebuilding a buffer that has fallen or become negative.

An alternative for a plan which does not have a sufficient asset buffer above the level of vested benefits is to adopt a more conservative investment strategy. While this may reduce short-term fluctuations in asset values, it is also likely to reduce long-term returns and hence result in increased Company contributions in the long-term.

In summary, a balance needs to be achieved between these short-term and long-term considerations in funding the defined benefit liabilities.

## Defined Benefits – Investment Objectives and Guidelines

The Fund's Defined Benefit assets are invested in the Equip Defined Benefit Option, not including the assets supporting Defined Benefit Member's Member and Company Accounts ("DB Accounts") which are invested in the Equip Balanced Growth option.

The Trustee's principal investment objectives for the Defined Benefit assets are therefore as follows:

| | DB Accounts | Other Defined Benefit Assets |
|---|---|---|
| Option | Equip Balanced Growth | Equip Defined Benefit |
| Real Return Objective | To achieve a net return of at least 3% p.a. above the Consumer Price Index (CPI) over rolling 10 year periods. | To achieve a net return of at least 2.5% p.a. above the Consumer Price Index (CPI) over rolling 7 year periods. |

We have taken account of the investment objectives of the Fund and the investment guidelines under which the Fund's investment managers operate in setting our actuarial assumptions in Section 4 of this report.

## Investment Strategy

In order to meet the investment objectives set for the Defined Benefit assets, the Trustee has adopted specific long term benchmark allocations to each asset class.

The table below shows the benchmark asset allocations at 30 June 2022:

| Asset Class | Benchmark Asset Allocation as at 30 June 2022 | |
|---|---|---|
| | DB Accounts – Equip Balanced Growth Option | Other Defined Benefit Assets – Equip Defined Benefit Option |
| Australian Shares | 25% | 17% |
| Overseas Shares | 30% | 21% |
| Property | 7% | 7% |
| Infrastructure | 9% | 7% |
| Alternatives | 5% | 10% |
| Alternative Fixed Interest | 7% | 15% |
| Traditional Fixed Interest | 12% | 15% |
| Cash and Liquid Assets | 5% | 8% |
| **Total** | **100%** | **100%** |

## Suitability of Investment Strategy

As reflected above, at 30 June 2022, the investment strategy was to have the assets supporting the Fund's DB Accounts invested 70% in growth assets and 30% in income assets via the Equip Balanced Growth option with the remaining defined benefit assets invested in the Equip Defined Benefit Option.

The current investment policy, in light of the Trustee's Contribution and Funding Policy, is considered suitable to the Fund's liabilities in respect of membership at 30 June 2022.

For the employees who are Defined Benefit Members, in the majority of cases the Member's DB Accounts are now materially higher than the Member's Defined Benefit formula benefit due to strong real investment returns (relative to salary increases) during their membership of the Fund. As a result, the vested benefit for most of these members "behaves" more like an accumulation benefit rather than a defined benefit. I believe that this remains an appropriate investment strategy for the DB Accounts.

In respect of the assets supporting other Defined Benefit liabilities (i.e. the excess, if any, of a Defined Benefit formula amount over the sum of the related DB Accounts and the value of life time pensions, contingent pensions and DIB claims), the Trustee, in agreement with the Company, has invested such assets in the Equip Defined Benefit Option. Given the nature of these liabilities and the financial position of the Fund, we believe this is an appropriate strategy.

# Section 4: Valuation Method, Fund Experience and Actuarial Assumptions

To carry out an actuarial valuation, it is necessary to decide on:

- the valuation method to be adopted; and
- the assumptions as to the factors which will affect the cost of the benefits to be provided by the Fund in the future.

The information in this Section 4 relates only to the Defined Benefit section of the Fund.

## Valuation Method

The funding method adopted for this valuation in respect of defined benefit liabilities is the Attained Age method, which is the same method that was adopted for the previous valuation. In my view, the Attained Age method remains suitable having regard to the nature of the Fund's defined benefit liabilities.

The calculation of the Company contribution by this method consists of two parts.

The **first part** is the "normal cost". The total normal cost is expressed as a level % of expected future salaries and is equal to the sum of:

- the cost based on actuarial assumptions of the benefits accruing to the members in respect of all future membership following the valuation date, plus
- the cost of insurance premiums, administration and taxation expenses.

The **second part** is the Company contribution required to amortise any surplus or deficiency at the valuation date.

The surplus or deficiency in respect of completed membership is then calculated as the difference between:

- the actuarial value of the Fund's assets attributable to the defined benefit section, and
- the present value of all benefits accrued to the date of the valuation in respect of defined benefit section members based on the valuation assumptions adopted.

The total Company contribution for the year is the Company's normal cost less/(plus) any amortisation of surplus/(deficit).

Overlay this, the contribution rate required to maintain vested benefits coverage above 100% in three years' time based on the valuation assumptions has also been considered.

## Funding Policy

The Fund's Participation Agreement includes, as Annexure 3, the Equipsuper Contribution and Funding Policy ("Funding Policy"). The Funding Policy specifies the method to be used to calculate a short-term adjustment to the long term contribution rate, dependent upon the Fund's financial position.

The liability measure the Funding Policy uses to assess the Fund's financial position is the greater of the Fund's Vested Benefits and Actuarial Value of Accrued Benefits. At 30 June 2022, the ratio of the Fund's net assets to this liability measure (termed the Funding Ratio in the Funding Policy) was 110.2% excluding accumulation accounts.

The Target Funding Ratio (TFR) is 101%, calculated in accordance with the Funding Policy. With a Funding Ratio at the current level, above 106% (TFR + 5%), the Funding Policy states that an adjustment to the long-term contribution rate is calculated that has the objective to allow the Funding Ratio to reduce to the TFR (101%) over time.

## Fund Experience and Valuation Assumptions

It is important when setting the valuation assumptions to be used to value defined benefit liabilities to examine the experience of the Fund to see whether the previous assumptions have been borne out in practice. A summary of the major items of experience over the period since 1 November 2021 is given in the following paragraphs.

## Investment Return

The assumption for investment returns in respect of the defined benefit member account assets invested in the Equip Balanced Growth option was 4.25% p.a. (net of investment fees and taxes) at the last valuation. The Fund's investment returns over the 8 month period from 1 November 2021 to 30 June 2022 in respect of the defined benefit member account assets invested in the Equip Balanced Growth option have been -6.0% (which equates to -8.8% p.a.).

The investment return (net of investment fees and taxes) was lower than the assumed rate over the period since the last valuation and this has had a negative impact on the Fund's financial position.

For this valuation, we have adopted a higher long term future investment return in respect of the part of the defined benefit member account assets invested in the Equip Balanced Growth option equal to 5.00% p.a. (net of investment fees and taxes) to incorporate higher expected returns in the short to medium term.

In relation to the defined benefit assets invested in the Equip Defined Benefit Option, we have adopted a higher long term investment return of 4.75% p.a. (4.00% p.a. at the last valuation) (net of investment fees and taxes) for the assets supporting self-insured Disability Income Benefit Claims and Fund Surplus and 5.25% p.a. (3.75% at the last valuation) (net of investment fees, gross of taxes) for the assets supporting lifetime pensioners and Contingent Spouse Pension reserves. These assumptions have been set with respect to the expected duration of the liabilities with which the assets have been invested to support.

## Salary Inflation

The assumed rate of salary inflation was 2.50% p.a. at the last valuation. The average rate of growth of superannuation salaries for members who were present at both the last and current valuation dates was 2.0% p.a. The actual increase in salary growth was on average 0.5% p.a. lower than the assumed rate. This has increased the accrued defined benefit liabilities of the Fund by slightly less than expected. For this valuation, we have increased the salary inflation assumption to 3.0% p.a. to reflect our outlook for higher underlying inflation in the short to medium term.

Over the long term, it is the "gap" between the investment return (net of tax) and salary inflation assumption that is important when valuing member's defined benefit liabilities. In this valuation we have increased the "gap" in respect of the Equip Balanced Growth option assets to 2.00% p.a. from 1.75% p.a. Over the review period, the actual "gap" was -10.8% p.a. which has had a slightly negative impact on the Fund's financial position.

## Pensioner Mortality

We have assumed pensioners experience mortality embodied in Australian Life Tables (ALT) 2015–17, the most recent available Australian life tables, with a scaled adjustment of 50% to age 55 up to 100% at age 100. The rates are then assumed to reduce each year beyond 2016 in line with the published 25-year improvement factors in the ALT2015-17. This is the same assumption used in the previous valuation.

## Pension increases

Pension increases are reviewed as at 1 July each year based on the increase in CPI over the year to 31 March. The pension increase since the last valuation was 5.0% for the year ending 31 March 2022.

We have increased our pension increase assumption from the previous valuation from 2.50% p.a. to 2.75% p.a. which is in line with our medium term price inflation assumption at the valuation date.

Over the long term, it is the "gap" between the investment return and pension increase assumptions which is important when valuing the pension liabilities. For this valuation, we have increased the "gap" to 2.50% p.a. from 1.25% p.a.

## Rates at which Members Leave Service and Retire

We have retained the assumptions used at the previous valuation. Statistically significant results based on actual experience are not available from a defined benefit membership of this size.

## Rates at which Members Leave due to Death or Total and Permanent Disablement (TPD)

In view of the small size of the defined benefit membership we have retained the long-term assumptions from the previous valuation which were based on the underlying death rates under the Previous Fund's Group Life policy.

No allowance is made in our valuation for Defined Benefit Members to leave service due to TPD. On becoming TPD, a Defined Benefit Member would normally continue to accrue Fund benefits until age 60 or earlier death.

## New Members

All Defined Benefit categories have been closed to new entrants since 1 July 1990. Since then, all new Members have joined the Accumulation categories.

## Expenses and Insurance Costs

The Company meets the Fund's administration and non-investment operational costs (to the extent that they are not recovered from members' benefits) by paying additional contributions to the Fund as required (or meeting the costs directly, where appropriate). Effectively, the Company meets these costs in respect of employee members.

The Company also meets the insurance cost for employee members. For all other members, insurance costs are deducted from their accounts.

The allowance for the company financed costs in the period up to the next valuation are $0.60m p.a. for administration and operational costs. The allowance for total insurance costs are $1.68m p.a.

## Summary of Valuation Assumptions

A summary of our valuation assumptions is set out in Appendix D to this report.

# Section 5: Insurance Arrangements

## Adequacy of Insurance

The insurance coverage of the Fund is considered adequate if the net assets of the Fund are sufficient to cover the Death, Total & Permanent Disablement and Disability Income benefits of the Fund after any insured components have been allowed for.

## Death and Total & Permanent Disablement Benefits

Permanent employee members (Defined Benefit Members and Accumulation Members) are provided with standard lump sum death cover (including grandfathering of pre-July 1995 death benefits for the relevant members) and standard lump sum TPD cover.

Since 1 January 2011, Retained Benefit members, Spouse members and Casuals have been able to take out Death only or Death and Total & Permanent Disablement (TPD) cover on a voluntary basis. From 1 July 2013, new Retained Benefit members maintained their death insurance cover on leaving service with BOC and basic TPD cover of $25,000.

All Death and TPD cover is externally insured by OnePath. Cover is generally provided up to the automatic acceptance level (AAL), with cover above this level subject to underwriting. Where cover is not provided, the death, disablement or income protection benefits payable to the member are appropriately reduced.

The current level of insurance for Death in respect of Defined Benefit Members is calculated as:

Insured Benefit = Death Benefit less Vested Benefit

The following table shows the adequacy of the Fund's defined benefit insurance cover for Death at 30 June 2022:

| | Amount $million |
|---|---|
| Lump Sum Death Benefits (A) | 33.681 |
| Less Aggregate Group Life Insurance (B) | 3.493 |
| Fund's Exposure (A – B) | 30.189 |
| Fund's Active DB Net Assets | 33.833 |

The Fund's Active member Defined Benefit Net Assets as at 30 June 2022 of $33.833 million are sufficient to meet the Fund's Exposure of $30.189 million. The current insurance arrangements are considered adequate and no changes are recommended.

## Disability Income Benefits (DIBs)

Permanent employee members (Defined Benefit Members and Accumulation Members) are provided with monthly DIB cover up to age 60 (on leaving service cover continues for up to 60 days).

Prior to 1 May 2016, the DIB was fully self-insured by the Fund. From 1 May 2016 the DIB has been externally insured to comply with the prudential standards that came into effect from 1 July 2016.

The cost of the notional insurance component and reserves required to be held in respect of expected claims arising in respect of events that occurred prior to 1 May 2016 are assessed as part of the valuation of liabilities conducted at each actuarial review. The results of this assessment are disclosed as part of the valuation results and taken into account in the recommended Company contribution rates.

Details of the Fund's self-insurance exposure to DIBs as at 30 June 2022 are as follows:

| Existing Notified Claims | |
|---|---|
| Number of Members currently in receipt of DIB payments | 13* |
| Current total DIB payments to these Members (per month) | $55,321 |
| Total present value of future DIB payments to these Members (including Company superannuation contributions) | $3.940 m |

* There were 11 DIB claims in payment as at 30 June 2022. We have conservatively allowed for an additional 2 DIB claims that are yet to be approved by the Trustee.

The value of the DIB payments is based on a suitable table of disability rates. These rates make some allowance for recovery and return to work as well as death.

Aside from the additional 2 DIB claims that are yet to be approved by the Trustee, we have not suggested to set aside any additional reserves to meet any future DIB claims arising in respect of events that occurred prior to 1 May 2016. This is primarily due to the time period that has now elapsed since 1 May 2016 and recent claims experience over the period since 1 July 2018.

# Section 6: Solvency and Funding Status Measures

There are several methods used to assess the current financial situation (i.e. funding status measures) of the Fund. These measures are discussed below.

In line with legislative and actuarial requirements, the net assets used to calculate the funding status measures was $573.43 million, being the Fair Value of assets.

Defined Benefit Assets are $39.98 million, as noted in Section 3.

## Vested Benefits

Pursuant to superannuation law and SPS 160, a fund (or a section of a fund) is in a *"satisfactory"* financial position if the assets of the fund cover the Vested Benefit entitlements of the members of the Fund.

The Vested Benefits represent the benefit entitlements of Members should they voluntarily leave the Fund. The Vested Benefits Index is a test of the Fund's financial strength if all Members voluntarily terminated service on the review date.

The value of vested benefits of lifetime pensioners is determined as the present value of future pension payments. For contingent spouses' pensions, a nominal amount has been set aside in respect of potential claims. This reserve has been held for many years, and has been more than sufficient for its purpose. For this valuation we have continued this reserve at $1.0 million.

The following table shows the progression of the Vested Benefits Index over the review period.

| Benefit Category | 1 November 2021 Vested Benefits $ million | 30 June 2022 Vested Benefits $ million |
|---|---:|---:|
| Accumulation Only Benefits | 582.627 | 533.450 |
| Defined Benefits | 41.128 | 30.203 |
| Lifetime Pensions | 1.261 | 1.138 |
| Contingent Spouse's Pensions | 1.000 | 1.000 |
| DIB Claims | 4.299 | 3.940 |
| **Total** | **630.316** | **569.730** |
| **Net Assets (excluding ORFR)** | **635.664** | **573.432** |
| **Vested Benefits Index (VBI) for overall Fund** | **100.8%** | **100.6%** |
| **VBI if Accumulation Only benefits excluded** | **111.2%** | **110.2%** |

As at 30 June 2022, the Net Assets of the Fund exceeded the Vested Benefits and the Fund was in a satisfactory financial position. The ratio of the Fund's Net Assets supporting defined benefits to the vested defined benefits was 110.2%. This ratio has reduced due to a combination of the negative investment returns and the Company contribution holiday in relation to expenses and insurance premiums over the period since 1 November 2021.

## Actuarial Value of Accrued Benefits

An indication of the funding status of a defined benefit fund is given by the ratio of the fund's assets to the Actuarial Value of Accrued Benefits (AVAB). This is called the Actuarial Value of Accrued Benefits Index (AVABI).

AVAB represents the value in today's dollars of future benefits based on membership completed to the review date, allowing for future salary increases, investment earnings and expected incidence of payment. *"Accrued Benefits"* has the meaning given in SIS Regulation 9.27.

It is important that the Actuarial Value of Accrued Benefits Ratio is not used to compare the level of funding between superannuation funds but is used as a measure to assess the funding status of a superannuation fund from time to time. Different superannuation funds can be expected to have different Actuarial Value of Accrued Benefits Ratios depending on the age and employment history of the members.

A fully secured position is represented by a ratio of 100.0%. At this level, if the fund were closed to new entrants and no further benefits were allowed to accrue to current members, assets would be sufficient to meet all future benefit payments if the actuarial assumptions are borne out in practice.

The following table shows the progression of the Actuarial Value of Accrued Benefits Index over the review period.

| Benefit Category | 1 November 2021 Accrued Benefits $ million | 30 June 2022 Accrued Benefits $ million |
|---|---:|---:|
| Accumulation Only Benefits | 582.627 | 533.450 |
| Defined Benefits | 41.128 | 30.133 |
| Lifetime Pensions | 1.261 | 1.138 |
| Contingent Spouse's Pensions | 1.000 | 1.000 |
| DIB Claims | 4.299 | 3.940 |
| **Total** | **630.316** | **569.661** |
| **Net Assets (excluding ORFR)** | **635.664** | **573.432** |
| **Accrued Benefits Ratio (ABR) for overall Fund** | **100.8%** | **100.7%** |
| **ABR if Accumulation Only benefits excluded** | **111.2%** | **110.4%** |

As 30 June 2022, the net Market Value of the assets of the Fund are adequate to cover the Actuarial Value of Accrued Benefits.

## Minimum Benefits

The company's Superannuation Guarantee (SG) obligation is fully met for all employee members by the minimum benefits provided under the Fund. The required Benefit Certificate is dated 14 February 2022 and applies from 1 November 2021 to 30 June 2025.

A Funding and Solvency Certificate dated 28 February 2022 has been issued to the Trustee corresponding to the above mentioned Benefit Certificate. This Certificate will be updated in conjunction with this valuation. The purpose of this Certificate is to specify the required Company contributions needed to fund the minimum benefits used to offset the SG charge.

The Fund is *"solvent"* if the net assets of the Fund exceeds the Minimum Requisite Benefits (MRB). The following table shows the progression of the Minimum Benefits Index over the review period.

| | Last Valuation All Benefits $ million | This Valuation All Benefits $ million |
|---|---|---|
| Net Assets | $635.664 | $573.432 |
| Minimum Benefits | $630.283 | $569.649 |
| Minimum Benefits Index | 100.9% | 100.7% |

As at 30 June 2022, the net assets of the Fund exceeded the Minimum Benefits and the Fund was in a solvent financial position.

## Shortfall Limit

As required under SPS 160 the Trustee has set the Shortfall Limit for the Fund as 100%, in line with the Equipsuper Contribution and Funding Policy. The shortfall limit is defined in paragraph 10 of SPS 160 as:

*"… the extent to which an RSE licensee considers that a fund can be in an unsatisfactory financial position with the RSE licensee still being able to reasonably expect that, because of corrections to temporary negative market fluctuations in the value of fund assets, the fund can be restored to a satisfactory financial position within one year."*

Should the financial position of the Fund breach the Shortfall Limit, additional interim actuarial investigations will be required with rectification plans to be put in place to address the unsatisfactory financial position.

We consider the Shortfall Limit is appropriate given the nature of the defined benefit assets and liabilities.

## Benefits Payable on Termination of the Fund

On termination of the Fund, clause 27(2) of the Legacy Rules which form part of the Participation Agreement states that assets should be applied in the following order:

a. To meet all costs and expenses of administering and winding up the Fund.

b. In the payment of accrued benefits for each Member (excluding pensions) and in the purchase of annuities for the then pensioners, however if the Fund is not sufficient to provide these benefits in full, then the payments and annuity pensions shall be proportioned accordingly.

c. The balance of the proceeds of the conversion of the Fund shall be apportioned by the Actuary amongst the Members having regard to their prospective benefits if the Fund had continued in existence.

The termination provisions do not require a minimum benefit to be paid but to apply assets in an order of priority. A minimum of the Vested Benefit should be available. The Fund's assets are sufficient to meet Vested Benefits at the valuation date.

## Various factors that may impact on measures

In the following paragraphs, we comment on a number of factors that may influence the measures in this Section. These factors are not exhaustive and are not meant to cover all possible factors that may influence these measures.

The net market value of assets does not include any assets that, to our knowledge, materially depend on the employer that have not been paid, nor any materially illiquid assets.

If the value of the pensions in payment was determined on an equivalent market value basis, then the indices in this Section would not be materially affected, as the value of the pensions in payment is less than $2 million.

Benefits are, by and large, fully vested and the same benefit is paid on retrenchment as it is on resignation.

We have included a value for contingent spouse pensions in the liabilities. Should more contingent spouse pensions emerge than are covered by the reserve, the indices may be affected, though based on recent experience, this is unlikely.

As noted in Section 3, we have not allowed for the value of the BOCG SFT Liability Reserve (transferred ORFR) in the net market value of assets at 30 June 2022. Assuming this reserve of approximately $1.8 million is returned to the Fund, commencing from 1 November 2024, this will have a positive impact on the financial position measures in this Section.

We discuss sensitivities further in Section 8.

## Experience since the Investigation Date

The levels of the funding measures would have improved as a result of higher than expected returns on the Fund’s defined benefit assets over the period since 30 June 2022, which have been 4.9% for the period from 30 June 2022 to 25 November 2022. However, given the basic accumulation benefit is above the lump sum formula for all members but one, higher than expected returns will impact both the assets and liabilities.

## Summary

The levels of the indices have reduced since the last valuation primarily due to a combination of the negative investment returns and the Company contribution holiday in relation to expenses and insurance premiums.

# Section 7: Valuation Contribution Results

It should be emphasised that the funding indices shown in Section 6 relate to the current position at the review date. A projection of the Fund is required to assess the adequacy of Company contribution rates to provide defined benefits in the future.

Such a projection has been carried out using the funding method and assumptions discussed in Section 4 and set out in Appendix E. The results of the valuation are summarised in this Section.

## Cost of Future Defined Benefits

In examining the current funding position we took account of the total present value of all expected future benefits in respect of defined benefit membership accrued up to the valuation date. We now consider in the table below the present value of all expected future benefits in respect of Fund membership after the valuation date ("future service defined benefits"), and the long term Company contributions required to finance these benefits.

| | $ million |
|---|---|
| Future Service Defined Benefit Liabilities | 1.317 |
| Less Value of future Defined Benefit account contributions | (1.319) |
| Defined Benefit Liability to be funded from future Company contributions | (0.002) |
| Value of future Company contributions of 1% of Defined Benefit Salaries | 0.140 |
| **Gross cost of Defined Benefit guarantee** | **Nil** |

As shown in the above table, based on the actuarial assumptions and ignoring the current funding position, over the long term the Company would not need to make any further contributions in addition to the defined Company and member contributions already being paid into Defined Benefit accounts, in order to meet the cost of the Defined Benefit guarantee.

## Company Contributions

The "normal cost" Company contributions for the 3 year period commencing 30 June 2022 are as follows:

a. for each active employee Member, contributions at the rate (expressed as a % of Fund Salary) agreed with the Member subject to the requirements of the Participation Agreement and the Superannuation Guarantee legislation; plus

b. the cost of insured standard lump sum death and TPD and Disability Income Benefits (DIB), with the actual monthly funding requirement (in dollars) to be determined from time to time by the Trustee; plus

c. additional contributions (including direct payment by the Company where appropriate) to meet any administration and non-investment costs borne by the Fund, net of any fees applied to Member's accounts.

As agreed with the Trustee and Company, the Company contributions in respect of b may be suspended until 30 June 2023 and recommence on 1 July 2023, while the Company contributions in respect of c may be suspended until 1 January 2026.

Our contribution recommendations above take into account the financial experience of the Fund over the period since 30 June 2022 to the date of this report.

The funding position, and in particular the coverage of vested benefits by Fund assets, should continue to be monitored quarterly and at 1 July each year.

## Projection of Results – DB Section

For Defined Benefit Section members, we have tested the impact of the adoption of the recommended Company contribution rates above, by projecting the cash flows of the Fund and the build-up of the Fund's assets over the next three years, and comparing the Fund's assets to the projected levels of the Vested Benefits and Target Funding Level.

| Projection Date | DB Only Assets $ million | DB Only Vested Benefits $ million | DB Only VBI % | DB Only Accrued Benefits $ million | DB Only ABR % |
|---|---|---|---|---|---|
| 30 June 2022 | 39.982 | 36.280 | 110% | 36.210 | 110% |
| 30 June 2023 | 32.991 | 30.738 | 107% | 30.715 | 107% |
| 30 June 2024 | 29.617 | 27.690 | 107% | 27.679 | 107% |
| 30 June 2025 | 24.581 | 22.997 | 107% | 22.997 | 107% |

The projection assumes returns from 30 June 2022 onwards as set out in Appendix E.

The above projections do not allow for the return of the of the BOCG SFT Liability Reserve to the Fund which will commence from 1 November 2024 (as detailed in Section 2 of this report). The return of the BOCG SFT Liability Reserve to the Fund will increase the Fund's surplus at that time (as it is not allowed for as a current or deferred asset of the Fund at 30 June 2022).

The projection shows a decrease in the Vested Benefits Index over the next three years as a result of the contribution holiday.

## Certification of Pension Payments

I am required to express a view as to whether I believe there is a high probability that the Fund will be able to pay the lifetime pensions as required under the Fund's governing rules.

The considerations I have taken into account in forming a view include:

- The Fund has sufficient liquidity to make pension payments from regular cashflows or the ready sale of the Fund's assets from time to time.
- The investment strategy, when considered in conjunction with the Trustee's Funding policy and the Company's commitment to making contributions, is currently suitable.
- The actuarial assumptions, and hence the resultant liability values, include allowance for future improvements in pensioner mortality.
- The expense incurred in administering the pensions.
- Upon the death of a lifetime pensioner (where no reversionary spouse pension is payable), the liability ceases. Any surplus created at that time improves the Fund's financial position.

Having considered these matters, I believe there is a high probability that the Fund will be able to pay the pensions as required under the Fund's governing rules.

## Future Review

The financial status of the Fund is sensitive to actual financial experience, principally death and disability claims experience, and to a lesser extent, investment returns, salary increases and membership movements.

Therefore, in accordance with the Contribution and Funding Policy, a check will be placed on the Funding Ratio at least quarterly or more frequently during periods of significant investment volatility.

The next actuarial valuation will be held effective 30 June 2023 unless APRA provides an exemption from the requirement to perform annual valuations.

# Section 8: Sensitivity Analysis and Material Risks

## Sensitivity Analysis

For the purpose of this investigation the "gap" between the investment return (net of tax) and salary inflation assumption for the active Defined Benefit Members' assets invested in the Equip Balanced Growth option is 2.0% p.a. Other assumptions could be used and the table below shows the impact of varying the "gap" between these assumptions on the Fund's financial position and long term contribution rate. No changes have been made to the demographic assumptions adopted for this valuation in the scenarios below:

| | This Valuation Basis | Scenario 1 | Scenario 2 |
|---|---|---|---|
| "Gap" between investment return and salary inflation assumptions | 2.0% p.a. | 3.0% p.a. | 1.0% p.a. |
| Actuarial Value of Accrued Benefits Index (AVABI) | 110.4% | 111.2% | 109.5% |
| Long Term Contribution Rate* | Nil | Nil | Nil |

* In excess of Company contributions to DB Accounts.

It should be noted that the variations selected in the sensitivity analysis above do not indicate upper or lower bounds of all possible outcomes. Further analysis can be carried out if required.

## Material Risks

The scenarios below labelled "base" reflect the assumptions used in this valuation.

### *Investment Returns*

For this valuation, I have adopted an investment return assumption (net of tax and investment management expenses) of 5.00% p.a. for the Defined Benefit Members' assets invested in the Equip Balanced Growth option, and 4.75% p.a. (5.25% p.a. for lifetime pension assets) for the balance of the defined benefit assets invested in the Equip Defined Benefit option. However, if actual investment returns are less than this, with all other actuarial assumptions borne out, then the funding position (Vested Benefits Index) will worsen and increased company contributions may be required.

### *Inflation*

For this valuation I have adopted a salary inflation assumption of 3.00% p.a. and a price inflation (used for pension indexation) of 2.75% p.a. However, if actual salary and price inflation is greater than these assumptions, with all other actuarial assumptions borne out, then the funding position (Vested Benefits Index) will worsen and increased company contributions may be required.

### *Self-Insured Disability Income Benefit (DIB) Claims*

The basis for valuing the remaining self-insured DIB claims has an allowance for claimants to recover or die, in accordance with the disability payment decrement rates used to value the DIB claims. However, if the existing notified DIB claims are paid for a longer period than allowed for in my assumptions with all other actuarial assumptions borne out, then the funding position (Vested Benefits Index) will worsen and increased company contributions may be required.

### *Contingent Spouse Pension Claims*

The Fund currently holds a reserve of $1.0 million for future Contingent Spouse Pension claims. This value has been determined with reference to a review of these liabilities by WTW in 2020 along with recent claims experience. Over the valuation period there have not been any claims for Contingent Spouse's Pensions. However, if there are higher claims than expected in the future, or a number of historical claims are made concurrently, then the funding position (Vested Benefits Index) will worsen and increased company contributions may be required.

# Appendix A: Summary of Benefits

## Summary of Benefits as at 30 June 2022

## Eligibility

The Defined Benefit Section of Category A is closed to new members. All new employees join the Fund immediately on commencement of service as a member of the Accumulation section of Category A.

On termination of their service, a Category A member may elect to retain all or part of their benefit in the Fund as a Category C member. Any associated eligible Spouse Member must also transfer into Category C at this time if they wish to retain their benefit in the Fund.

Eligibility for membership of Categories C will be based on certain rules and conditions as are set by the Trustee from time to time.

Category D members are former Employee Members or their widowed spouses who are in receipt of a lifetime pension from the Fund.

Eligible spouses of an existing Fund member were able to join the Fund as a Category E member prior to 1 November 2021. Category E was closed to new members from 1 November 2021.

## Salary

“Salary” normally means standard wage or salary excluding bonuses, commissions or other special payments or benefits or payments for overtime or loadings for shift work.

## Additional Voluntary Benefits and Surcharge Deductions

In the description of benefits provided below, except where specified, we have only described the minimum or basic benefits provided under the Fund.

Members may also elect to pay additional voluntary contributions and/or roll over into the Fund amounts held in other superannuation funds. From time to time, the Fund may also receive Government co-contributions and Tax Office assessments for surcharge, excess contributions, Div 293 Tax and No TFN Tax in respect of certain Members. Further, Member’s benefits may be reduced as a result of family law split orders.

Any amounts falling into the above categories are credited (net of tax, where applicable) or debited (in the case of surcharge and excess contributions tax assessments and Family Law split orders) to the relevant Member’s accounts in the Fund, and accrued with the actual investment returns earned by the Fund.

For the purposes of this Report, we have referred to the accumulated value of these benefits as "Additional Voluntary Accounts".

Fund members are able to arrange additional cover for Death and (if applicable) Total and Permanent Disablement on a voluntary user-pays basis.

## Summary of Benefits – Defined Benefit Members

### *Contributions and Accounts*

Defined Benefit Members are normally required to contribute 3% of Salary towards their basic defined benefits, which is credited to the member's Member Account.

For these members, the Company contributes 13% of Salary towards their defined benefits, which is credited (net of tax) to the member's Company Account.

For other Defined Benefit Members, including those on a total remuneration package, the required contribution rates by the member (if any) and the Company are as agreed between the member and the Company. The relevant contributions are then credited (net of tax, where applicable) to the member's Member Account or Company Account as appropriate.

Both the Member Account and Company Account are credited (or debited in the case of a negative return) with the actual Fund investment return for the Trustee's investment strategy for the Fund's defined benefit assets. Currently this is the Balanced Growth option.

### *Defined Benefit Formula ("DBF")*

On or before age 65, DBF equals 18% of Final Average Salary for each year of Category A membership, where:

- Category A membership is rounded to the higher year;
- A lower accrual rate than 18% applies for certain Members to past membership of the former CIG Works Retirement Fund, and
- Final Average Salary ("FAS") normally means the average Salary earned over the last 3 years.

For Category A Defined Benefit Members on a total remuneration package ("TRP"), the Company establishes a minimum superannuation rate (R%), with Salary (for DBF purposes only) then being set equal to TRP multiplied by {1-R%}.

DBF does not apply after age 65.

## *Withdrawal Benefit*

On retirement or resignation a lump sum benefit is payable equal to the greater of:

a. Total of the Member's Member Account and Company Account; and

b. DBF (if aged less than 65).

No additional benefit is paid from the Fund on redundancy or retrenchment.

## *Death Benefit*

On death in service (or within 60 days of leaving service, if no replacement death cover has commenced in the meantime) a lump sum benefit is payable equal to the greater of:

a. Withdrawal Benefit plus 18% of Salary multiplied by the number of years (including complete months) by which the Member's date of death precedes their 60th birthday; and

b. If the Member is aged less than 65 years at the time of death:

   i. 5 × Salary, plus

   ii. for each child aged less than 21 years at the date of the Member's death (with up to three children counting, starting at the youngest), 7.5% of Salary multiplied by the number of complete years by which the Member's date of death precedes the child's 21st birthday; and

c. If the Member was a Category A Member on 30 June 1995, the lesser of 6 × Salary, and:

   i. Withdrawal Benefit; plus

   ii. 18% of Salary multiplied by the number of years (including complete months) by which the Member's date of death precedes their 65th birthday.

Minimum Death cover of $50,000 applies up to age 70 (prior to 1 July 2013 the relevant age was 65).

## *Disability Income Benefit*

On disability in service (or within 60 days of leaving service, if no replacement disability income cover has commenced in the meantime) a monthly Disability Income Benefit ("DIB") of up to 75% of Salary (or, for TRP members, 75% of [TRP less compulsory superannuation contributions]) is payable from the Fund, potentially up to age 60 whilst the Member remains disabled, according to the definition under the Fund's Insurance Policy:

- DIB payments commence from the date the Member is no longer entitled to receive Salary from the Company (via other benefits) but no earlier than 1 month after the date of disability;
- DIB payments are increased each year in line with CPI indexation on the anniversary of the first claim payment;

- DIB payments may be reduced by any workers compensation or social security benefits (or TRP package benefits) received by the Member; and
- Members in receipt of DIB payments continue to accrue normal Withdrawal benefits.

If a Member who was a Category A Member on 30 June 1995 ceases service on account of total and permanent disablement prior to age 65, the Member may elect to receive a specified lump sum benefit (including their Withdrawal Benefit) in lieu of DIB payments above.

### *Total and Permanent Disablement ("TPD") Benefit*

A lump sum TPD benefit of $25,000 is payable on total and permanent disability (according to the definition under the Fund's insurance policy) occurring during service prior to age 70. The TPD benefit scales down gradually after age 65, and is payable in addition to all other Fund benefits (and does not trigger cessation of Category A membership).

## Summary of Benefits – Accumulation Members

### *Contributions and Accounts*

Member and Company contributions for Category A – Accumulation Members are paid on the basis agreed between the Company and each Member, subject to the minimum Superannuation Guarantee ("SG") requirements.

Typically, Category A – Accumulation Members contribute 3% of Salary, with the Company paying 13% of Salary. Contributions are credited (net of tax, where appropriate) to the Member's Member Account and Company Account respectively.

Both the Member Account and Company Account are credited (or debited in the case of a negative return) with the actual Fund investment return for the Member's chosen investment strategy. Most Members are currently invested in the Trustee's default strategy, Balanced Growth.

### *Withdrawal Benefit*

On retirement or resignation, a lump sum benefit is payable equal to the sum of the Member's Member Account and Company Account.

### *Death in Service Benefit*

On death in service (or within 60 days of leaving service, if no replacement death cover has commenced in the meantime) of a Category A – Accumulation Member, a lump sum benefit is payable equal to the greater of:

a. Withdrawal Benefit plus 18% of Salary multiplied by the number of years (including complete months) by which the Member's date of death precedes their 60th birthday; and

b. If the Member was a Category A Member on 30 June 1995, the lesser of six times' Salary, and:

   i. Withdrawal Benefit; plus

   ii. 18% of Salary multiplied by the number of years (including complete months) by which the Member's date of death precedes their 65th birthday.

Minimum Death cover of $50,000 applies up to age 70, for permanent employees members (prior to 1 July 2013 the relevant age was 65).

### *Disability Income Benefit*

Category A – Accumulation Members are entitled to a monthly Disability Income Benefit on the same terms and conditions as Category A – Defined Benefit Members. Details are provided above.

### *Total and Permanent Disablement Benefit*

Category A – Accumulation Members are entitled to a lump sum TPD benefit on the same terms and conditions as Category A – Defined Benefit Members. Details are provided above.

# Appendix B: Details of Membership

## Membership as at 30 June 2022

| Membership Category | Number of Members | Total Salaries $'000 | Average Salaries | Average Age | Average completed M'ship |
|---|---|---|---|---|---|
| Defined Benefit: | 35 | 3,538 | 101,084 | 59.2 | 35.3 |
| Accumulation Employees: | 990 | 99,780 | 100,788 | 45.8 | 12.0 |
| **Total** | **1,025** | **103,318** | **100,798** | **46.3** | **12.8** |

* *For Defined Benefit Members on a Total Remuneration Package, the Defined Benefit Formula is calculated using a percentage of Annual Salary, as agreed between the Company and the Member.*

In addition, at 30 June 2022 the Fund has:

- 1,439 Retained Benefit members
- 4 members in receipt of a lifetime pension from the Fund, and
- 11 self-insured DIB claims in payment

## Approaching Retirements

In the next three years, 9 Defined Benefit Members are expected to reach their Normal Retirement Date. The total of their defined benefit retirement benefits at 30 June 2022 was $8.1 million.

# Appendix C: Changes in Membership

## Changes in Membership for the Period 1 November 2021 to 30 June 2022

| Category | Number of Members at 1 November 2021 | Number of Members at 30 June 2022 |
|---|---|---|
| Defined Benefit | 43 | 35 |
| Accumulation Employees | 1,014 | 990 |
| Retained | 1,422 | 1,439 |
| **Total** | **2,479** | **2,464** |

As at 30 June 2022, there were also 4 members receiving a lifetime pension from the Fund, which is unchanged from 1 November 2021.

# Appendix D: Valuation Method and Assumptions

## Valuation Method

Attained Age

## Asset Value

Market value taken from audited accounts at the valuation date.

## Investment Returns

For Equip Balanced Growth option assets:

- 5.00% p.a. compound (net of investment expenses and taxes)

For Equip Defined Benefit option assets:

- 5.25% p.a. compound for pension assets (net of investment expenses and gross of tax)
- 4.75% p.a. compound for superannuation assets (net of investment expenses and net of tax).

## Inflationary Salary Increase

3.00% p.a. compound (including promotional effects)

## Price Inflation

2.75% p.a. compound

## Rates of Mortality and Withdrawal (Active Members)

Examples of rates at which members leave the Fund per year per 10,000 members:

| Age Next Birthday | Death | Leaving Service |
|---|---|---|
| 25 | 5 | 1,450 |
| 30 | 5 | 1,100 |
| 35 | 5 | 880 |
| 40 | 7 | 660 |
| 45 | 11 | 440 |
| 50 | 16 | 220 |
| 55 | 23 | 2,000 |
| 60 | 36 | 2,000 |

## Rates of Mortality (Pensioners)

We have adopted the mortality rates published in the ALT2015-17 (Australian Life Tables) with a scaled adjustment of 50% to age 55 up to 100% at age 100. Additionally, the rates are then assumed to reduce each year beyond 2016 in line with the published 25-year improvement factors in the ALT2015-17.

## Rates of Retrenchment

No allowance has been made for members to be retrenched.

## Future Expense Allowance

Investment expenses are allowed for in the investment returns shown above which are assumed to be net of investment expenses.

Details of the financing of administration and non-investment operational costs and the costs of external insurance are covered in Section 4 of the report.

## New Entrants

No allowance for new entrants.

## Taxes

Tax on investment income is allowed for in the Investment Returns as shown above.

Tax on contributions has been allowed for as 15% of Company contributions reduced by allowable deductions (for administration and insurance costs). No allowance has been made for GST or Reduced Input Tax Credits.

## Surcharge Tax, Excess Contributions Tax and No TFN Tax

No allowance has been made for Surcharge Tax, Excess Contributions Tax, Div 293 Tax, and No TFN Tax, as the Trustee offsets any tax payable by the Fund against the benefits of the relevant Members.

## Composition of Membership

It has been assumed that Members remain in their current Category.

## Reserve for Accumulation Benefits

An amount of $533,450,312 represents the total accumulation benefits of Members at 30 June 2022.

The Valuation makes no allowance for future contributions to these accumulation benefits as the future contributions and the benefits they produce offset one another.

# Appendix E: Statements required under Regulation 23 of SPS 160

The statements required for this Fund under paragraph 23 of SPS 160 for regular investigations are set out below. Note, these are provided in relation to the Fund's defined benefit liabilities only.

## 1. Fund Assets

The net market value of the Fund's assets attributable to the defined benefit liabilities at 30 June 2022 was $39.982m. This amount excludes assets attributable to accumulation members or the accumulation balances of Defined Benefit Members.

This value of assets at 30 June 2022 was used to determine the recommended Company contribution rates and assess the funding status measures and is also referred to as the "actuarial value" of the assets.

## 2. Projection of Vested Benefits

The projected likely future financial position of the defined benefit category of the Fund during the three years following the valuation date and based on my best estimate assumptions is as follows:

| Projection Date | DB Only Assets $ million | DB Only Vested Benefits $ million | DB Only VBI % |
|---|---|---|---|
| 30 June 2022 | 39.982 | 36.280 | 110% |
| 30 June 2023 | 32.991 | 30.738 | 107% |
| 30 June 2024 | 29.617 | 27.690 | 107% |
| 30 June 2025 | 24.581 | 22.997 | 107% |

## 3. Accrued Benefits

In my opinion, the value of the assets of the Defined Benefit Members of the Fund at 30 June 2022 was adequate to meet the liabilities in respect of the accrued benefits of Defined Benefit Members of the Fund (measured as the value of members' accrued entitlements using the valuation assumptions). I consider that the assumptions and valuation methods set out in this report are appropriate for determining the accrued liability.

## 4. Vested Benefits

At 30 June 2022 the Fund was in a satisfactory financial position, as defined in SPS 160. In my opinion the Fund does not need to be treated as being in an unsatisfactory financial position. The shortfall limit does not need to be reviewed.

## 5. Minimum Benefits

At 30 June 2022 the value of the minimum benefits of all Fund members (including Accumulation Members) was $569.649m, which was less than the net assets at that date. Minimum benefits are as defined in Regulation 5.04 of the Superannuation Industry (Supervision) Regulations.

The coverage of the MRBs for all Fund members (including Accumulation Members) as at 30 June 2022 was 100.7%.

## 6. Funding and Solvency Certificates

Funding and Solvency Certificates for the Fund covering the period from 1 November 2021 to 30 June 2022 have been obtained. The Fund was solvent, as defined in the Superannuation Industry (Supervision) Regulations at 30 June 2022. In my opinion, assuming the Employer contributions are paid at the recommended rates and the actuarial assumptions are borne out in practice, the solvency of the Fund will be able to be certified in any other Funding and Solvency Certificate required under the Regulations during the three year period to 30 June 2025.

## 7. Recommended Company Contributions

The recommended contributions payable by the Company as a result of this investigation are:

The normal Company contributions for the 3 year period commencing 30 June 2022 are as follows:

a. for each active employee Member, contributions at the rate (expressed as a % of Fund Salary) agreed with the Member subject to the requirements of the Participation Agreement and the Superannuation Guarantee legislation; plus

b. the cost of insured standard lump sum death and TPD and Disability Income Benefits (DIB), with the actual monthly funding requirement (in dollars) to be determined from time to time by the Trustee; plus

c. additional contributions (including direct payment by the Company where appropriate) to meet any administration and non-investment costs borne by the Fund, net of any fees applied to Member’s accounts.

As agreed with the Trustee and Company, the Company contributions in respect of b may be suspended until 30 June 2023 and recommence on 1 July 2023, while the Company contributions in respect of c may be suspended until 1 January 2026.

The Company should also pay pre-tax member contributions for members who have elected to make voluntary contributions by salary sacrifice.

## 8 Defined Benefit Pensioners

In my opinion, as at 30 June 2022 there is a high degree of probability that the Fund will be able to pay pensions as required in the governing rules.

J. Downham

**Jackie Downham**
Fellow of the Institute of Actuaries of Australia

15 December 2022

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